SWITCHING INTO THE FAST LANE

COHL JOHNSTON, FREDERICK REININK, KAREN TSCHERNER, STEPHEN SHANNON
1. Grow USA Riders to 2 Millions – **YES**
   - Potential with Women
2. Bring 100 “High Impact” Motorcycles – **NO**
   - No in this environment
3. Grow International business to 50% Annual volume – **YES**
   - Expand global market
4. Increase return on invested capital to top 25% of the S+P 500 – **Plan to**
   - Exciting financial projections for EPS
5. Growth in an environmental and sustainable way – **YES**
   - EV vehicles & Plan for the future
Disruptive forces and innovation are threatening the successful implementation of the ambitious 10 year plan to grow the business.
Is to offer new bikes that will appeal to new global and domestic customer segments
AGENDA

- Where are we today?
- What does the business context look like?
- What does the industry look like?
- What does the market look like?
- What decision criteria was considered
- What are the alternatives?
- Recommended alternative
- Suggested implementation
- Financial projections
WHAT IS YOUR CURRENT STATE?

Strong Brand

Operating in 67 Countries

Need to act now

Industry is being Disputed!!!
WHAT ARE YOU GREAT AT - CORE COMPETENCIES

Motorcycles – superior custom designs

Clearly defined target markets

Overall very strong player in the market
OUR BUSINESS CONTEXT

- Large increase in tariffs in EU and US
- Ban of Combustion Engines on the rise (2030)
- Economic Policy Changing Globally – uncertain future
- Urbanization
- Electric Vehicles
- Oil prices increasing
- Low demand for youth
- We need to act now – significant changes occurring!
<table>
<thead>
<tr>
<th>Competitor</th>
<th>Offering</th>
<th>Position</th>
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<tbody>
<tr>
<td>Honda</td>
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<tr>
<td>Indian</td>
<td>Mid- Large CC</td>
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<tr>
<td>Royal Enfield</td>
<td>Small – Mid CC</td>
<td>India / North America</td>
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<td>Triumph</td>
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<td>BMW</td>
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<td>Yamaha</td>
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DEcision Criteria

Stakeholder Value
- Shareholders
- Employees
- Customers

Growth and Sustainability
- EV
- Profitability
- Address the disruption

Future Needs
- Financial Growth
- Competitors reaction to market

Maintain Brand
- Brand stewardship (115 years)
ALTERNATIVES CONSIDERED - GLOBAL & DOMESTIC EXPANSION

- Expand
  - Sub Brand
  - Current
- New Product Line
  - 10 New Bikes
  - Current Product Line
ALTERNATIVES 1 – SUB BRAND

**PROS**
- Not Alienate Core Customers

**CONS**
- Marketing Difficulties
- No Brand Stewardship
- Financial
ALTERNATIVES 2 – EXPAND MARKET & PRODUCT LINES

**Pros**
- New Demographics
- Cost reduction
- Production efficiency

**Cons**
- Core customer Image
# ALTERNATIVE MATRIX

<table>
<thead>
<tr>
<th>Stakeholder Values</th>
<th>Growth &amp; Sustainability</th>
<th>Future Needs</th>
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<tbody>
<tr>
<td>Sub Brand</td>
<td>No</td>
<td>Yes</td>
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<tr>
<td>Expand Market &amp; Product Line</td>
<td>Yes</td>
<td>Yes</td>
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SWITCHING LANES – EXPAND MARKET AND PRODUCT LINES

- **10 New “High Impact” Base Bikes**
  - EV Bikes – Sound and Looks
  - Smaller CC engines- women and beginners
  - Highly customizable- appeal to different segments
  - Vintage line
- **Meet global customer needs**
  - Smaller CC engines for Asia
IMPLEMENTATION PLAN (2018 – 2022)

- Abandon R&D
- Australia Plant Closure
- Supplier Development
- Operational Efficiency
- High Impact Lines
- Educate and Mentor

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- Education
- Mentorship
- High Impact
- Lines
- Operational
- Efficiency
- Supplier
- Development
- Australia
- Plant
- Closure
- Abandon
- R&D
IMPLEMENTATION TIMELINE

Abandon R&D Efforts on Mid-Weight Gas Bikes
- Reallocate R&D Resources

Australia Plant Closure
- Decommission Equipment
- Divest Assets
- Transfer Equipment to Thailand

Supplier Development
- Investment in R&D
- Battery Technology
- Stability and Motion Technology

Drive Operational Efficiency
- Assess Operations
- Identify Opportunities for SCM
- Lean Manufacturing Concepts
- Invest in Digitization (systems)

Set-up High Impact Lines
- India
- Thailand
- Brazil
- Manufacturing Readiness for “high impact” motorcycles
- Digitization (robotics)
- Capacity simulations

Educate/Mentor Urban Population
- Increasing Brand Awareness
- Establish Dealerships in Urban Centers

IMPLEMENTATION COSTS

- **Abandon R&D Efforts on Mid-Weight Gas Bikes**
  - $1 Million
- **Australia Plant Closure**
  - Realize savings
- **Supplier Development**
  - $30-50 Million
- **Drive Operational Efficiency**
  - Realize savings of $75 Million
- **Set-up High Impact Lines**
  - $100 Million
- **Educate/Mentor Urban Population**
  - $5 Million

Timeline:
- 2018 Q4
- 2019 Q1
- 2019 - 2021
- 2019 - 2021
- 2021
- 2022
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<tr>
<th>Region</th>
<th>2013</th>
<th>2017</th>
<th>2018</th>
<th>2020</th>
<th>2022</th>
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<td>United States</td>
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<td>147972</td>
<td>143532.84</td>
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<td>Total International</td>
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<td>94816</td>
<td>96347</td>
<td>107377</td>
<td>178683</td>
<td>190067</td>
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<td>263733</td>
<td>330221</td>
<td>337328</td>
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SALES PROJECTIONS
## REVENUE PROJECTIONS

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<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2020</th>
<th>2022</th>
<th>2025</th>
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<tr>
<td><strong>Revenue</strong></td>
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<tr>
<td>Motorcycles</td>
<td>$3,825,206</td>
<td>$3,845,519</td>
<td>$3,799,456</td>
<td>$4,304,952</td>
<td>$4,312,635</td>
<td>$4,332,384</td>
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<tr>
<td>Parts &amp; Accessories</td>
<td>$804,363</td>
<td>$884,799.30</td>
<td>$973,279.23</td>
<td>$1,070,607.15</td>
<td>$1,177,667.87</td>
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<tr>
<td>General Merchandise</td>
<td>$262,776</td>
<td>$263,880.00</td>
<td>$265,000.00</td>
<td>$291,500.00</td>
<td>$364,375.00</td>
<td>$455,468.75</td>
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<tr>
<td>Financial Services</td>
<td>$732,197</td>
<td>$745,000.00</td>
<td>$745,000.00</td>
<td>$819,500.00</td>
<td>$1,024,375.00</td>
<td>$1,280,468.75</td>
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<tr>
<td><strong>Total Revenue</strong></td>
<td>$5,647,224</td>
<td>$5,739,198</td>
<td>$5,782,735</td>
<td>$6,486,559</td>
<td>$6,879,053</td>
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<td><strong>Cost of Revenue</strong></td>
<td>$3,441,876</td>
<td>$3,650,000</td>
<td>$3,524,468</td>
<td>$3,953,435</td>
<td>$4,192,652</td>
<td>$4,488,070</td>
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<td><strong>Gross Profit</strong></td>
<td>$2,205,348</td>
<td>$2,089,198</td>
<td>$2,258,268</td>
<td>$2,533,124</td>
<td>$2,686,400</td>
<td>$2,875,687</td>
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<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$1,314,085</td>
<td>$1,335,487</td>
<td>$1,345,618</td>
<td>$1,297,312</td>
<td>$1,375,811</td>
<td>$1,472,751</td>
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<td><strong>Operating Income</strong></td>
<td>$891,263</td>
<td>$753,711</td>
<td>$912,650</td>
<td>$1,235,812</td>
<td>$1,310,590</td>
<td>$1,402,935</td>
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<td>Interest Expense</td>
<td>$31,004</td>
<td>$31,000</td>
<td>$34,100</td>
<td>$37,510</td>
<td>$41,261</td>
<td>$45,387</td>
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<tr>
<td>Income Before Taxes</td>
<td>$863,839</td>
<td>$722,711</td>
<td>$878,550</td>
<td>$1,198,302</td>
<td>$1,269,329</td>
<td>$1,357,548</td>
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<tr>
<td>Provision for Taxes (40%)</td>
<td>$342,080</td>
<td>$289,085</td>
<td>$351,420</td>
<td>$479,321</td>
<td>$507,732</td>
<td>$543,019</td>
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<tr>
<td><strong>Net Income</strong></td>
<td>$521,759</td>
<td>$433,627</td>
<td>$527,130</td>
<td>$718,981</td>
<td>$761,597</td>
<td>$814,529</td>
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REVENUE PROJECTIONS

Net Income

0 100000 200000 300000 400000 500000 600000 700000 800000 900000
0 100000 200000 300000 400000 500000 600000 700000 800000 900000

1 2 3 4 5 6

Problem Analysis Decision Alternatives Recommendation Implementation Finances Dashboard
### Earnings Per Share

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<thead>
<tr>
<th>Earnings Per Share</th>
<th>Basic</th>
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<th>Diluted</th>
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<tr>
<td>Basic</td>
<td>3.03</td>
<td>2.52</td>
<td>3.06</td>
<td>4.18</td>
<td>4.43</td>
<td>4.74</td>
<td>3.02</td>
<td>2.51</td>
<td>3.05</td>
<td>4.16</td>
<td>4.40</td>
<td>4.71</td>
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<td>Risk</td>
<td>Metrics</td>
<td>Contingency</td>
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<tr>
<td>Low Brand adoption globally</td>
<td>Decrease in % of new sales</td>
<td>Insure customers needs/wants are covered.</td>
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<tr>
<td>Supply Chain Issues</td>
<td>Operating cost increase</td>
<td>Look to additional suppliers</td>
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<tr>
<td>Current customers leave</td>
<td>% Market share decrease</td>
<td>Proper marketing and still offer traditional products</td>
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<tr>
<td>Economic environment</td>
<td>New policies and laws</td>
<td>Adapt strategy</td>
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KPI's by 2027

- EPS $5.00
- Operational Efficiency 95%
- Inventory Turns 18
- Sales Increase 60%